

Message Text

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ACTION EB-08

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FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 6758

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY LONDON

USDOC WASHDC

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FOR: DEPT PASS INTERIOR, BUREAU OF MINES

E.O. 11652: N/A

TAGS: EMIN, BL

SUBJ: TIN

1. RRA HAD LONG TALK WITH MINISTRY OF MINES SUBSECRETARY ARMANDO URIASTE AND DIRECTOR OF MINING GUILLERMO MURGUIA ABOUT GOB REACTIONS TO THE JULY ITC MEETING AND SUBSEQUENT REVALUATION OF GOB POSITION VIS-A-VIS THE ITC. BOTH OFFICIALS DISCLAIMED ANY GOB INTENTION TO WITHDRAW FROM THE FIFTH ITA. HOWEVER, BOTH EXPRESSED GREAT DISSATISFACTION WITH ITC AND WERE CONVINCED IT WAS NOT WORKING IN BOLIVIA'S INTEREST. THEY SAID MUCH THOUGH HAD BEEN GIVEN TO ALTERNATIVE POSSIBILITIES BUT DID NOT ELABORATE ON WHAT THEY MIGHT BE.

2. SUBSECRETARY & DIRECTOR OF MINING EXPRESSED GREAT DISILLUSIONMENT WITH US ACTION AT JULY ITC MEETING. GOB HAD BEEN LED TO BELIEVE THAT WHEN IT ACCEPTED IDEA OF PRICE REVIEW PANEL
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IN EXCHANGE FOR RATIFICATION OF FIFTH ITA THAT FINDINGS AND CONCLUSIONS OF THE PANEL WOULD BE TAKEN INTO SERIOUS CONSIDERATION BY THE ITC. GOB REALIZED THAT PANEL FINDINGS WOULD NOT BE CONCLUSIVE BUT CLAIMS USG, WHICH PLAYED CENTRAL ROLE IN PANEL DELIBERATIONS, FINALLY REJECTED PANEL FINDINGS AND CONCLUSIONS ALTOGETHER AND RETURNED TO PREVIOUS SYSTEM OF "HORSE TRADING" WHERE CONSIDERABLE POLITICAL WEIGHT OF

USG IS BROUGHT TO BEAR TO ATTAIN PRICE RANGE WHICH IS RESULT OF POLITICAL PRESSURES RATHER THAN ECONOMIC REALITIES. IN THIS CONTEXT, ACCORDING TO URIOSTE AND MURGUIA, THE USG ENTRY INTO THE ITC HAS CAUSED A GREAT INBALANCE IN FAVOR OF THE CONSUMERS.

3. URIOSTE RECOGNIZED THAT COSTS WAS NOT THE ONLY CONSIDERATION WHICH SHOULD AFFECT ESTABLISHMENT OF MINIMUM AND MAXIMUM OF BUFFER STOCK PRICE RANGE BUT FELT IT WAS THE MOST IMPORTANT AND CERTAINLY TOOK PRECEDENCE OVER HORSE TRADING. HE SAID THAT MARKET SITUATION OF TIN SURPLUS OR TIN DEFICIT ALSO HAD TO BE TAKEN INTO CONSIDERATION. HOWEVER AT PRESENT THERE IS A SHORTAGE OF TIN IN THE MARKET AND A MINIMUM PRICE THAT ONLY GUARANTEES BREAK-EVEN OR A SLIGHT EARNINGS IS NOT GOING TO BE SUFFICIENT TO ENTICE NEW INVESTMENT. THEREFORE, ALTHOUGH THE MARKET SITUATION IS RELEVANT TO SETTING THE PRICE RANGE IT CANNOT EXPLAIN THE USG POSITION IN THE CURRENT SITUATION OF SUPPLY SHORTAGE. FLOOR PRICE IS IMPORTANT TO INVESTORS IN BOLIVIA, ACCORDING TO URIOSTE, BECAUSE MINING IS A LONG TERM INVESTMENT AND HIGH PRICES TODAY DO NOT ENSURE A FAIR RETURN OVER THE NEAR TERM FUTURE. IN THIS REGARD, THE SUBSECRETARY MENTIONED THAT THE US DELEGATION SAID THE US CONSUMERS COULD NOT SUPPORT MARGINAL MINES. HOWEVER, IN A SITUATION OF WORLD SHORTAGE OF TIN IT SEEMS TO MAKE LITTLE SENSE TO TALK OF MARGINAL MINES SINCE IF THESE MINES WERE CLOSED TIN PRICES WOULD BE FORCED EVEN HIGHER.

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4. FINALLY THE SUBSECRETARY WITH THE OCCASIONAL INTERVENTION OF THE DIRECTOR OF MINING SAID THAT EPRP STUDIES SHOWED THAT WORLD TIN PRODUCTION STARTED A GRADUAL DECLINE IN 1971 AND THAT THIS DID NOT CORRESPOND WITH CHANGES IN TIN TAXATION. HE SAID THESE STUDIES SHOWED THAT INFLATION IN THE PRICE OF MINING MACHINERY AND EQUIPMENT WAS MORE IMPORTANT THAN TAXES, LABOR OR POWER COST INCREASES. HE ENDED BY SUGGESTING THAT THE BUFFER STOCK PRICE RANGE SHOULD BE SET HIGHER IN TIMES OF TIN SHORTAGE AS AT PRESENT. THE FLOOR PRICE SHOULD BE SET TO ALLOW A FAIR RETURN TO ENCOURAGE NEW INVESTMENT. WHEN THE MARKET HAS AN EXCESS OF TIN THE SCALE SHOULD BE MOVED DOWNWARD TO DISCOURAGE NEW INVESTMENT AND WEED OUT MARGINAL MINES.

BEAL

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